ECCLESIA LAW

Private Ecclesiastical Counsel
United States & International

MODERN BANKING, EXEMPTION ACCOUNTS, AND NOMINEE FILINGS

AND MONETARY ANALYSIS OF CREDIT CREATION

Introduction

Modern banking no longer operates on the redemption of money in gold or silver. Since the enactment of **House Joint Resolution 192 (1933)** in the United States, gold clauses were rendered unenforceable and all public and private obligations were mandated to be discharged in **fiat credit**. This marked a decisive shift in monetary architecture: value was no longer anchored to a physical commodity but to **credit**, **confidence**, and **productive capacity**.

Within alternative finance, this shift is often described through the metaphor of an **"exemption account."** This term does not refer to a formally named bank account, but to a conceptual ledger within the system where **human labour, productivity, and future output** serve as the ultimate collateral backing all obligations.

This report expands on that framework by examining:

- the transition from gold-backed money to credit-backed money,
- the legal and accounting role of the borrower's signature,
- the nominee posture adopted by banks through IRS reporting,
- the origin of the "all debts are prepaid" thesis,
- and why these ideas persist in critiques of modern finance.

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1. From Gold to Human Energy

1.1 The Pre-1933 Monetary System

Before 1933, the monetary system in the United States (and by extension much of the Western world) was formally anchored to **gold and silver**:

- Contracts often included **gold clauses**, requiring payment in specie or its equivalent.
- Bank notes were, at least in theory, redeemable for precious metal.
- Credit expansion was constrained by reserve requirements tied to physical assets.

1.2 House Joint Resolution 192 (1933)

HJR-192 fundamentally altered this architecture:

- Gold clauses were invalidated.
- All debts—public and private—were declared payable in **legal tender fiat currency**.
- The state severed the legal link between money and precious metals.

This did not eliminate value; it **redefined it**.

1.3 The Shift in Collateral

In the post-1933 system:

- Value is sustained by **productive economic activity**.
- The ultimate backstop becomes taxation power, labour, and future output.
- Credit expands in proportion to confidence, enforceability, and compliance.

In alternative finance language, this is described as the system moving from **metal-backed money** to **people-backed money**.

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2. The Role of the Signature

2.1 Signature as a Credit Instrument

Every loan, mortgage, credit card agreement, or finance contract including bank payments requires a **signature**. In commercial law:

- A signed agreement constitutes a **negotiable or quasi-negotiable instrument**.
- It is evidence of a promise to pay.
- It creates enforceable obligations over time.

2.2 Monetisation of the Promise

Modern banking theory—supported by central bank publications—acknowledges that:

- Banks do not lend pre-existing deposits.
- When a loan is issued, a **new deposit is created simultaneously**.
- The signed promise becomes the **asset** that justifies the deposit.

From this perspective, the individual is:

- the **issuer of the instrument** (the promise), and
- the **guarantor** of its performance.

The bank functions as an intermediary that records, manages, and enforces the obligation.

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3. The "Exemption Account" Logic

3.1 What the Term Means

The "exemption account" is not a named statutory account. It is a **conceptual description** used to explain:

- where the value of money comes from in a fiat system, and
- how obligations appear to be "pre-funded" by the act of signing.

Under this view:

- Your promise to pay is immediately booked as an asset.
- The system balances itself at origination.
- The liability on one side corresponds to an asset on the other side of the ledger.

3.2 Why Some Say Debts Are "Prepaid"

The reasoning follows this logic:

- If the bank creates the deposit at loan origination,
- and the asset is your signed obligation,
- then the value already exists at the moment of signing.

Thus, in theory, the system is **internally balanced** from inception. What continues afterward is **performance, enforcement, and servicing**, not creation of new value.

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4. Nominee Reporting and IRS Filings

4.1 Banks as Nominees

In tax administration, a **nominee** is a party that reports income **on behalf of another**.

Banks often file IRS forms such as:

- **1099-OID** (Original Issue Discount),
- **1099-A** (acquisition or abandonment of secured property),
- **945** (withholding on non-payroll income).

IRS Publication 1212 explains that OID may be reported by nominees when the filer is not the true beneficial owner, subject to correction.

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4.2 The Alternative Finance Interpretation

Within exemption-account frameworks:

- Banks are said to file first, positioning themselves as creditors.
- If no correction is made, the system defaults to treating the bank as the income recipient.
- The original signer remains in a **debtor posture unless a correction is filed**.

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5. Modern Money Mechanics

5.1 Central Bank Admissions

The Federal Reserve Bank of Chicago's *Modern Money Mechanics* explains:

- Banks create deposits when they issue loans.
- Lending is not constrained by deposits but by capital and regulation.

5.2 Richard Werner's Empirical Research

Economist Richard Werner's work demonstrates empirically that:

- Bank lending creates new money.
- The act of lending expands the money supply.
- Banks are not mere intermediaries of savings.

These findings align with the exemption-account narrative insofar as they confirm that **money is created through accounting entries tied to signed obligations**.

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6. Integrated Conceptual Chain

Element	Modern Banking Relevance
Bills of Exchange Act 1882	Defines negotiable instruments and signature-based obligations
HJR-192 (1933)	Removed gold backing; mandated fiat discharge
Modern Money Mechanics	Explains deposit creation via lending
Richard Werner	Empirical confirmation of credit creation
IRS Pub 1212 / 1099-OID	Nominee reporting architecture
Exemption Account	Conceptual ledger of human-backed credit

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7. Strategic Implications

7.1 Silence vs Assertion

- **Silence = Debtor posture**:
  If no challenge or correction occurs, the system continues to treat the bank as creditor.
- **Assertion = Creditor posture**:
  Understanding nominee reporting allows individuals to reframe their role as credit originators rather than consumers and this can lead to abandoned credit recoupment.

7.2 Energy as Collateral

At the systemic level:

- Taxes, productivity, and compliance sustain fiat money.
- The system depends on collective participation.
- Credit is only valuable if it can be enforced.

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8. Why the “All Debts Are Prepaid”

This is because:

- Money is created at loan origination.
- The borrower’s promise is the foundation of the asset.
- Banks profit from managing, trading, and enforcing obligations, not from lending reserves.

From this vantage point, the ongoing payment stream feels like **double performance**: first by creating the asset, then by servicing it.

Conclusion

Modern banking is a **credit-based accounting system**, not a reserve-based one. Since 1933, money has been backed not by gold, but by **human productivity, taxation power, and enforceable promises**. The borrower’s signature sits at the heart of this architecture, enabling deposit creation and securitisation.

The “exemption account” is best understood as a **conceptual explanation** of this reality: a way to describe how value enters the system through human obligation rather than physical assets. Nominee reporting frameworks, including IRS 1099-OID filings, provide the administrative layer through which banks position themselves within that system.

The central truth of modern finance:
money today is not mined—it is promised, recorded, and enforced.

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